CAFBA

Commercial Asset Finance Brokers Association of Australia Limited

ABN 32 129 490 133

National Professional Body of the Equipment Finance Industry

COMMERCIAL ASSET FINANCE BROKERS ASSOCIATION OF AUSTRALIA

SUBMISSION TO

THE AUSTRALIAN BANKERS ASSOCIATION

REVIEW ON COMMISSIONS AND PAYMENTS

Submitted by: David Gill, Chief Executive Officer on behalf of CAFBA

Key Points:

Status quo to remain
Commercial equipment finance broker's commissions are not incentive based
They reflect the complex nature of structuring finance for lender approval
They do not result in poor customer outcomes
They enhance the ability of small business to have access to finance
No evidence of market failure

23rd September, 2016

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Mr Stephen Sedgwick
Australian Bankers Association
Level 3, 56 Pitt Street
Sydney, NSW 2000

23rd September 2016

Dear Mr Sedgwick,

RE: ABA Review into Commissions and Payments

The **Commercial Asset Finance Brokers Association of Australia Limited (CAFBA)** welcomes the opportunity to comment on the Australian Bankers Association Review into Commissions and Payments.

CAFBA is the peak national body of commercial equipment finance brokers, whose prime area of business is the distribution of commercial equipment finance facilities to their clients. **CAFBA** members are career professionals who arrange in excess of $8bil of new commercial equipment finance for their clients annually. Our members and their clients are predominantly small to medium sized businesses, and operate in the commercial finance market. The total receivables in the Australian equipment finance market is approximately $100 billion, so it is an important component of the Australian economy.

The role of the commercial equipment finance broker is to arrange the most suitable financial product to assist clients acquire equipment to be used in their businesses. The broker will have a full understanding of the clients business and their needs, and will prepare a submission to lenders based on this evaluation. The selection of the most suitable lender will take into account a range of factors, including the client's financial circumstances, ability to service and net asset backing, and also the type of equipment, term of facility, and type of product after seeking advice from the client's accountant.

Many transactions are complex, and require the broker's knowledge and expertise to arrange the finance. This can include arranging letters of credit for the importation of equipment or foreign currency loans to align with particular income streams. Financial structuring is often also required, particularly for farm equipment where the loan needs to match to the borrower's cash flow.

The commercial broker's remuneration is therefore commensurate with the type of loan, length of time to obtain an approval, and the complexity of the transaction. The commission is built into the transaction to alleviate a further upfront financial burden to the client and is recouped through the payments, and is therefore amortized over the term of the loan. These payments are generally tax deductible (finance and operating lease) or the interest component of each payment is deductible for other products (chattel mortgage and hire purchase). This arrangement is seamless, with repayments fitting into serviceability calculations.

Commercial broker payments are **not** incentives, but reflect the time spent and the complexity of each transaction. Importantly, the broker is able to offer the customer choice, and often is able to arrange numerous lender facilities to avoid concentration risk with any one lender.

These payment arrangements do not result in poor customer outcomes, but in fact facilitate access to finance for small to medium sized businesses. There is no evidence of market failure, and statistics from EDR schemes support this. Less than 1% of disputes raised by the small business sector relate to finance broker activities.

Some brokers may also receive a Volume Bonus Incentive (VBI) from lenders for placing business with the lender. This VBI is not payable by the client but from bank margins to increase volume. VBI is normally only available to large broking firms or aggregators, who are merely benefitting from an economy of scale – it does not influence the type of facility selected, but the lender who can offer that facility, which is usually of a straightforward or vanilla variety. VBI is also a lenders recognition for Value and Quality that is provided by the broker or brokerage group. A well run group streamlines and reduces administration for the financier, often the extra payments are also linked to the overall quality of the broker's ledger of introduced business, and adoption of changes and training are also streamlined for the financier.

CAFBA is of the strong view that the current commission structures in the commercial equipment finance market is fair and should remain unchanged. It is not incentive based and does not result in a detrimental outcome for borrowers, but rather facilitates access to finance that otherwise may have proved difficult.

We appreciate the opportunity to comment, and would be pleased to make ourselves available for further discussion on this important issue.

Yours Faithfully

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